

e-Global Finance – Trading Platform

Net Market Maker Services Workshop Notes

Review of Goals and Objectives

- Capture the business scope
- Identify components
- At the end of the first two-week period, what will be the major milestones?
- Deliverables
- Scheduling/logistics
- Time/Scope/Budget—The Triple Constraint
 - CSC needs to guide eGlobal as to what the big drivers are that will affect any of these three factors
 - The tools that can be purchased vs. custom developed are key drivers
 - E-Global looks at our agreement as a total package and cannot name any one driver as more important than another
- What is the process for sharing knowledge to team members?
 - Ongoing Statement of Work document
 - Workshop processes

Description of common market maker services

1. Net Market Maker
2. Members
3. 3rd Parties

Discussion of the general categories of services to be provided by EGF in the Trading Community

1. **[HIGH] Membership**—is tracked by INDIVIDUAL (as well by Corp.)
 - Every member should be a qualified institutional buyer (QIB) & Agents
 - online registration ****EGF****
 - offline validation by licensed rep. (different validation process for QIBs and Agents) ****EGF****
 - some regular re-validation
 - Analyst Participant (Market Watcher)
 - online registration
 - There is a distinction between members and participants:
 - **THE PARTICIPANTS**
 - portfolio (buying and selling for their own accounts) *TRANSACT & VIEW*
 - agents (EGF and nonEGF—looking to make money off the trade) *TRANSACT & VIEW*
 - market watchers (people who track and report on the subject—Analysts and NAIC Regulators) *VIEW ONLY*
 - EGF staff
 - The site will be TRANSACTION driven, professional and pure
 - Participant agreement (rights, rules/assertions)
 - **[LOW] Some automated qualification input from third-party site . . . **EGF****
 - **[MEDIUM] Trading partner tables for exclusions**
 - Preferences: fully disclosed/ anonymous (EGF and Members)
 - *How will you punish “bad” participants? Will e-Global do quality control? The risks include looking like you are siding with someone. One clear area e-Global will punish is circling deals---punishment? Kick them off. E-Global will find out by anonymous reporting. The danger of collecting this kind of data is if e-Global has this info and does not disclose it, they could be held liable when a deal goes bad.*
 - **Member monitoring—QA (removal) **EGF****
2. **Community [MEDIUM]**

- **[HIGH] Market data**
 - **[HIGH] Newsletters EGF**
 - **[HIGH] Industry publications** (segment, or ext. links)
 - **[MEDIUM] Brand index & [HIGH] Market indices**—Lehman Corp. Bond Index/ ACLI (American Council of Life Insurance) Index **EGF**
 - **[HIGH] Corporate data** (all or next to none)
 - major relevant corporate news
 - 10K/10Q plus human intervention
 - **[HIGH] NRSO Ratings** (MOODY'S, S&P, Finch)/NISC Ratings
 - **[HIGH] KMV** (Bond Default Rating Service) How can EGF subscribe?
 - **[HIGH] Corporate Bond Pricing** (changes weekly)
 - Access to other corporate trading sites
 - Bridge Information Network
 - Bex data
 - **[HIGH] Relative value model EGF**
 - **[MEDIUM] Transaction history data** (anonymous?)
 - **[HIGH] Link to ePrivus—Credit derivatives/Swaps EGF**
 - **[MEDIUM] Non-EGF trading transaction data**
 - **[HIGH] Some content editors (sponsored content) **EGF**/EGF Industry Analysis EGF**
 - **[LOW] Legal and accounting resources**
 - Credit derivative swaps
 - **[MEDIUM] EGF Glossary of Terms**
 - **[LOW] Economic Calendar** (what economic reports are coming out every morning)
 - Demo of the site
 - Dynamic Data (data feeds)
 - Current Credit ratings
 - Spreads associated with comparable deals
 - Corporate Bond rating
 - Performance Benchmarking
3. **[HIGH] Supply & Demand EGF**
 - **EGF is a listing service (providing a platform) EGF**
 - **Establishing a homogenous format EGF**
 - Creating a platform for a buyer and seller to interact
 - **Collect preferences to drive the match/transaction (Market color) EGF**
 - online processing and
 - offline processes (EGF Account Coverage) ****EGF****
 - Security creation **EGF **EGF****
 - Transformation of whole loan collateral
 - **Market view with matched percentage of buyer preferences EGF**
 - **Notification by e-mail of new deals EGF**
 - *(Open Book—will have a live auction and you can see your bid on a bar chart) EGF*
 - **Personalized/Filtered views EGF**
 - **Levels of document disclosure EGF**
 - **Upload non-digitized materials EGF**
 4. **Transactions [HIGH]**
 - Audit trail
 - Trade Clearing
 - escrow service
 - EGF-established closing rules (multiple bidders—who wins?)
 - **EGF monitoring the deal process **EGF****
 - Each transaction will get a transaction representative with 800 phone number and email address
 - Deal tracking system

- Facilitate document review by buyer (physical logistics and online review)—Merrill Corp—printer of financial documents is located here
- Transactions have a 3rd-party trustee—ultimately EGF wants to develop its own trust services or make an alliance with another service
- The trustee on a secondary transaction never changes
- Allow people to do summary offerings but only for a couple weeks (generate indications of interest—top bidders would then get a couple more weeks to see and respond to the full offering)
- Managed process for offering products X amount of time to specify interest, selection of participants, offer time, review (various levels of disclosure during processes)
- If electronic signatures do not become insured by title insurance, they will not be used—but application should be built to be prepared to accommodate this feature
 - The investor signs only a one-page document
 - Not uncommon for 2-3 persons involved in the borrowing end of a deal to spend 2-3 days signing forms
- Pricing engine access to help determine fair value
- [MEDIUM] Structure enhancements
- [MEDIUM] Content access on applicable data (tie to community)
- [HIGH] Credit default swaps (ePrimus opportunity) Link
- [LOW] Credit default swaps—Product-EGF
- Addition to the EGF data warehouse
- Online collaboration on primary offering (need collaboration software) –with updates and notifications of new materials posted and available
- Transactions under Consideration (same thing as screening)
- Pricing – Spread Request (we have a pricing request, a form is filled out, indicative form request)
- Provide detailed corporate credit info
- Buyer provided transaction information
- Quick term sheet
- Indicative spread summary (linked to quick term sheet, perhaps followed by on the page depending on transaction)
- ? Show a transaction under consideration on the trading platform
- Reverse inquiry/color information from trading platform (requires human interaction and validation)
- 1. Setup transaction page – accesses by EFG manager
- Pricing – Spread request (periodically sent)
- Upload of borrower provided transaction document provided transaction documents (lease guarantee, preliminary loan documents, due diligence, anything the borrower has on the deal)
- Credit Structure Review
- Preliminary due diligence review
- Audit trail – applies to all
- Rate credit structure (find the plugs and fill in the wholes)
- Suggest structure enhancements.
- [LOW] Offer structure swap vehicle
- Smart term sheet and update trading platform
- Arrange 3rd party vendor services (insurances, legal, env, etc. to the extent they are not already lines up)
- Negotiate and finalize smart term sheet (non price and price)
- Transaction terms accepted by borrower
- Trigger full offer and one to two week offer period on trading platform (need human interaction, there's a whole bunch of iterations)
- Conduct order period and obtain investor circles (accepting, when you circle you are prepared to price) via trading platform

Commitment

- Prepare final pricing based on investor circling
- Set date for locking rate with borrower (rate) and locking yields with investors (yield).

- Lock
 - Obtain executed commitment letter from borrower.
- Obtain "good faith" deposit from borrower based on profile

5. Post-Transaction Services

- [HIGH] Notify trustee of transfer ****EGF****
- [HIGH] Automatically added to buyer's "portfolio" pages (including affiliates of potential owners)
- Provided cash flow and analytic data to buyer
 - monthly, quarterly, annually
- [HIGH] NAIC reporting (?)
- [HIGH] Accounting reporting
 - (provide cash-flow)
- [MEDIUM] Generic summary data report
- [MEDIUM] Portfolio monitoring and potential buyer interest notification (automating trade creation) ****EGF****
- Addition to the EGF data warehouse and data internal mining
- [MEDIUM] NAIC access—special page and potential data push ****EGF****
- [HIGH] Comparison of transactions and portfolios to benchmarks
- [HIGH] Credit monitoring
- Automatic notifications of credit actions/changes
- [MEDIUM] Opt. in/opt. out for news feed
- [MEDIUM] Add NAIC rating to deal once available (transaction record)

Discussion of the general activities that members will participate in the Trading Community

- ****EGF**** = EGF activity only
- **EGF** = Market differentiators (something only EGF provides)

General services which 3rd party providers are envisioned to supply to the Trading Community

- Content providers (multiple media types)
 - News
 - Credit Information
 - Corporate Data
 - Market Analysis
 - Corporate Bond Pricing
- Transaction facilitation providers
 - Trustees
 - Servicers
 - Legal
 - Accounting
 - Printing
 - Document Management (need to find the right resource)
- EGF's Bank (escrow progress facilitator/wire transfer)
- Credit card processors entities
- Product Providers
 - Credit Enhancement
 - Structure Enhancement

Revenue Streams

MEMBERSHIP

- No membership fees
 - Even market watchers are a free advertising source
- General/Basic for free
- ~~Premium Membership fees above and beyond this~~
 - Enhanced content access
- General Industry /CGF created
- As we build the site, keep this functionality in mind even if it is not in place from the chute.
 - Creates the appearance that this data is valuable (“we’ll be charging \$2000”)
- First 50, give it free? Give it free after one transaction, free for 90 days, etc.
- Need to charge for every aspect of the service
- We should set up a model to let us do this, but the charge might be zero. These people will be paying for the transaction
 - Different levels of information based on diff. Levels of membership. Create a template so we could charge for it later

CONTENT/COMMUNITY

- Initial Content provided based on member level
- Future – premium content charge per piece
- Advertising fees – Participant
 - Would this cheapen the site?
- Users will not need to be advertised to
- Sponsored pages – access to EGF users by 3rd parties – value content
 - Sponsored content is the only way to go, “advertising” is very taboo
- Dealing with conservative participants, they would NOT want this, real sensitivity needed
- Linking in and linking out – click to sponsors –charge “per click”? They see both sides. Feels like we are cheapening the experience, but we are a distribution vehicle. You have to have 100 million to invest to be on this site, audience is pretty much known. Are we a cheaper, more timely way for vendors to interact with these vendors? You can’t buy ads from us, but you could pay to put content up. Give somebody a right for 5 grand to publish 5 articles. (“paint my fence and please pay me”) – this could work.
 - We could have a resource page, directory, content – pay to be in this directory. **Keep the stuff OFF main screen, but accessible through content.** Must be done well, carefully. Color variation may be too much for these people.
- Would there be any value to outside consulting services? NO. No pimping.

OFFERING SERVICES (Supply and Demand)

- **Listing Services**

(Note: take a look at what Intralinks does . . . they put all the documents up (glorified Lotus Notes) and manage the entire documents management process. Ability to draft documents online.)

EGF can charge for this because this information will provide market color/summary of interest in the deal.

We have to price our service so we make a lot of money, but provide value to them

EGF’s platform is already pre-processed, if they charge me \$100,000, as opposed to my spending X dollars to send out my own guys, ...

Need to try to strive for a transaction level revenue model. “we are defining the buy side.”

- Primary
 - In Consideration
 - Summary = **A**
 - In Process
 - Summary = **A**
 - Full = **B**
 - Owned
 - Summary = **A**
 - Full = **B**

A = Fixed Price/Flat Fee for placement amount (TBD) Potentially tiered based on terms.

B = Fixed Price—Flat fee for placement (amount TBD)

% on closing—higher % for placement (shared risk/reward)

- Secondary
 - Owned
 - Summary = **A**
 - Full = **B**

A = Flat Fee.

B = Fixed Price or percent on closing

C =

Key Value to Buyer

- Pricing Transparency
- Structure Transparency (pricing benchmarking against other deals)
 - Is there an incredible demand for this kind of resource?

--ABSNet.net

TRANSACTION CHARGES/ PORTFOLIO MANAGEMENT

- Escrow service—Float and fee to seller (Amount TBD) for using EGF Escrow
- Servicing fees (trustee fees?)
- Securitization—float flat fee for tracking whole loqn through securitization process
- Transformation of secondary placement into EGF format
- Deal review and enhancement—structure modification
- Portfolio management—upload existing deals for online review, analytics, benchmarking—(charged per deal with a possible cap once a threshold is reached)
 - the least expensive trustee setup fee is \$5,000 and you have no access to your documents—the only advantage a trustee has over EGF is a bank charter and a rating. Accounting reporting part of the service.
- Portfolio monitoring and potential buyer interest notification (trade creation)

OTHER POTENTIAL REVENUE STREAMS

- Charge for downloading documents?
- Database management system—"we'll help you" attitude and message.
- Selling information?

with . . .
 –Portfolio participant agreement

- Need a demo/dummy offering for new members to see
- Most portfolio players will already be pre-qualified
- The wire transfer system is not ready to be used for the EGF site, but perhaps in the future it can be used
- Could use a third-party credit card processor entity—however, does the amount it will be used justify the use of one?

[DISCOVER STAGE TASKS DISCUSSION]

Meetings with users:

- Push back the date to August 1—CSC to give a list of items to EGF that will be addressed to users
- EGF to meet with some key users before CSC meets with them
- Another issue is that the Ad Agency/PR Firm will probably also want to hold meeting with them
- Perhaps a survey format would be the most efficient way to reach the users—Kyle could give CSC a list of 30 names who all get the survey, but Kyle personally calls the top 5 persons we want responses from to ensure a response from these people—the survey response could also affect the presentation EGF gives these users. CSC to come up with a list of questions. Perhaps CSC calls users and walks them through it.

- Listing services
- Portfolio management
- Trade/clearing/closing
- Data warehousing
- Customer Care

Critical Services EGF will perform:

Membership
 Listing services
 Trading/clearing/closing
 Establishing a homogenous format (this is a rule not a service)
 Pricing engine (part of listing services?)
 Portfolio management
 Access to legal resources (just for reaction value θ)
 Data warehousing
 Customer care/CRM (part of membership)

Ranking

1. Membership
2. Listing services
3. Portfolio management
4. Trade/clearing/closing
5. Data warehousing
6. Customer Care

Description of Critical Services:

- Membership (example of what users will do)
 1. Membership description--explanation of site and how to use it (if you purchase more than X number of reports, the rest are free or do more X number of deals, portfolio status is free)
 2. Collect demographics
 - corporate, user, portfolio, pre-approval questions, portfolio player/agent/watcher,
 3. Participant Agreement (market-watcher basic agreement)
 4. User is given basic market-watcher privileges
 - Pre-approved membership info and post approval membership questions
 - once a user is pre-approved, they can obtain basic-level market-watcher status
 - "you are given market-watcher status and will be notified whether you have become a portfolio player"
 5. Assign EGF contact to applicant (relationship manager)
 6. EGF validates membership and level of membership and securities (Most portfolio players will already be pre-qualified)
 7. Applicant completes member profile
 - Includes preferences (filtering--deal types, etc.) and personalization—once this is completed, they get hit